The following funding options are conceptual models designed to highlight the different levers the state has influence over. The state can **raise revenue or it can change the way it budgets current revenue**. It can also employ two or three of these strategies at the same time. The models outlined below have not been thoroughly researched; they're designed to get the Task Force thinking about the trade-offs, benefits and problems with each approach. Your task is to select two or three for more thorough research.

In general, the funding options can be grouped under two headings:

- Ideas for safeguarding current funding or offering other benefits in lieu of state support.
  - Option 1: Guaranteed Funding Floor
  - Option 2: Voucher or Stipend System
  - Option 3: High Tuition, High Aid

- Ideas that raise or dedicate revenue to higher education
  - Option 4: Surcharge on Business Licenses
  - Option 5: Bond Proceed Endowment
  - Option 6: Higher Education Rainy Day Fund
  - Option 7: Local Higher Education Taxing Districts

Guaranteed funding 'floor'	
Guarantee a funding floor or 'Maintenance of Effort' level to the institutions, set at or near current budgeted appropriations or the percentage of the operating budget. In exchange for this stability, the institutions would guarantee the current level of enrollment, student mix and degree production. Additional funds above the floor could be directed to enrollment, 'quality' enhancements or high-demand programs. If the state could not make its Maintenance of Effort funding target, the institutions would be free to raise tuition, reduce enrollment and/or cut programs without state intervention. There are two ways this 'trigger' provision could work: either the institutions would be free to raise tuition proportionately to the reduction or the institutions would receive tuition-setting authority if the funding floor target isn't met. Tuition Component: Subject to negotiation. State could grant institutions tuition-setting authority, limit this authority to cuts below the floor, or set a proportional tuition cap based on state funding.	
Experience in Other States: The Governor of California proposed a constitutional amendment to make baccalaureate higher education at least 10% of the operating budget (the UC/CSU systems currently constitute less than 6% of the operating budget), but the proposal has not been adopted.	
Savings	
Efficiency	
Performance and Accountability	
Considerations	This option is a realistic way to commit the state to maintain some level of support for higher education, but the 'guarantee' is not air-tight; the state delayed 'mandatory' increases for K-12 twice in the past ten years. Some institutions may not see the benefit of 'agreeing' to current funding levels, and instead want to focus on restoring the recent cuts. Policy makers may like the message, but could balk at granting institutions more control over how to take cuts. They also may want to maintain the flexibility of the current system.
Stakeholder perspectives	

Voucher or Stipend system	
Alter the way the state budgets for higher education. Examples of this include providing a voucher to all resident students in lieu of state appropriations to institutions. This would enable entrepreneurial institutions to thrive, and would create incentives to reduce costs. A cap on the number of credit hours would eliminate paying to educate 'career students' and the availability of funding for every resident may help non-traditional students enter the system. In addition, removing a state subsidy on students from very high-income families allows state dollars to be targeted to those that need the support. Tuition: In one version, tuition would be set at the full cost of instruction, with the voucher/stipend covering some portion of that total. Institutions would compete to offer students a lower price.	
Experience in other states: Colorado's system uses a version of this model. Students have a lifetime credit cap and receive a subsidy when they enroll in any public institution. More information is available here: https://www.cu.edu/ums/cof/faq.html	
Savings	
Efficiency	
Performance and Accountability	
Considerations	The state may therefore be less able to direct policy at the institutions. In addition, there is still no clear incentive for institutions to graduate students, as opposed to simply enrolling them. It would not allow for over-enrollment – the enrollments at institutions that do not receive state subsidies. Colorado, which operates a version of this strategy, generally enrolls and graduates fewer students than Washington. Colorado's tuition has risen by 47% from 2005 to 2010, compared to 37% in Washington, but Colorado institutions have less total revenue (state appropriations in the form of vouchers + tuition payments) per student.
Stakeholder perspectives	

High tuition, high aid	
Certain institutions would be free to raise tuition substantially over current rates. Additional state funds would go towards financial aid and not to these institutions directly. By making state appropriations a lower fraction of their operating budgets, the institutions may be able to withstand funding cuts. They may be more entrepreneurial as attracting undergraduate students becomes more important to their bottom line. Needy students would be held harmless through higher financial aid. As long as student demand is high, the institutions may get more stable revenue to dedicate to instruction. Tuition could be substantially higher at institutions with the market demand to charge higher rates. The University of Washington, Western Washington University and Washington State University sought tuition setting authority in the last legislative session, but the bill did not pass.	
Experience in Other States: The University of Michigan moved to this model in the 1990s, and by 2009, their undergraduate tuition rate was 60% higher than UW's. Some research found the approach resulted in the University serving a lower percentage of needy and non-traditional students. However, the University of Michigan survived several recessions and is still ranked near or above the UW in various measures of research university quality. The University of California system has increased tuition sharply in recent years and may have backed into this model. It's not yet clear if financial aid can keep pace with the tuition rates, but these campuses currently serve larger numbers of needy students, so they may be more similar to the University of Washington than Michigan.	
Savings	
Efficiency	
Performance and Accountability	
Considerations	There is considerable legislative opposition to this idea. Some fear that financial aid will not keep pace with tuition, either because the schools will raise tuition too fast, or because the state will no longer control tuition increases when it sets financial aid policy. Sticker shock may cause applications from low-income families to drop. This seems to have happened in Michigan (see below). Middle-class families who do not qualify for financial aid would be squeezed, and student indebtedness would likely increase. Many may argue that this is not a funding strategy at all, as several institutions would not be able to implement it. It reduces budget pressures to increase funding for some institutions, but increases the pressure on the financial aid budget. The Community Colleges have been wary that 'high tuition' institutions would take too great a percentage of the financial aid budget as well.
Stakeholder perspectives	

Impose a surcharge on business licenses, or assess a fee paid by businesses when they hire skilled workers	
The state could impose a surcharge on business licenses, or assess a fee paid by businesses when they hire skilled workers. Neither approach would raise enough revenue to fund the institutions, but they could generate a modest pool that could be used for performance incentives or for a high-demand enrollment program. The state issues about 130,000 new business licenses per year, generating around $30 million.	
Savings	
Efficiency	
Performance and Accountability	
Considerations	Assessing a fee on hires or business licenses might be a disincentive to create jobs just when hiring (and entrepreneurship) is needed.
Stakeholder perspectives	

Bond Proceed Endowment	
The state could sell bonds to create a modest endowment for higher education and provide some portion of the corpus to one or more campuses. Assuming a 5% payment rate per year, the institutions could share $25 million on a $500 million endowment every year. The state would be responsible for debt service, but could theoretically lower appropriations in exchange for providing the endowment proceeds. If the portfolio grew in value, the annual disbursements could also grow. The University of Oregon's president proposed this idea to fund the University of Oregon, with the requirement that the institution match the state contribution to debt service dollar-for-dollar. This could create a larger endowment, and proceeds from the endowment would replace all direct appropriations to the institution. This option would not directly address tuition.	
Experience in Other States: While this hasn't been implemented yet, the President of the University of Oregon proposed this idea recently. The University of Oregon is not a major research university, and its appropriation is a fraction of the University of Washington's. This idea may better suited for Washington State University or the regional institutions. http://president.uoregon.edu/files/2010/05/UO-White-Paper.pdf	
Savings	
Efficiency	
Performance and Accountability	
Considerations	The state lacks sufficient debt capacity for an endowment over $1 billion (and even that amount would necessitate delaying or eliminating other capital construction needs), and at that level, the proceeds may not be sizeable enough to justify forfeiting flexibility in the capital budget. Policy makers may chaff at the idea of paying debt service in lieu of making direct appropriations, as it may be easier to influence institutional policy through the latter. Capital construction (for higher education and other purposes) has been a crucial source of jobs during the recession, and this option would reduce the number of new projects the state could build.
Stakeholder perspectives	

Establish a higher education rainy day fund	
Create a 'Rainy Day Fund' dedicated to higher education. The source of revenue matters less than the details surrounding how it would be appropriated and/or protected, but over time, the state would could create a budgetary cushion for higher education. During a recession, this fund would ease pressure on the General Fund by reducing the need for GF-S expenditures in higher education. Currently, 1% of general state revenue is deposited into a constitutional Rainy Day Fund, and can only be spent by a supermajority of the legislature or by a simple majority if the Governor declares a fiscal emergency. Without creating a new constitutional fund, the state could direct some fraction of an existing revenue source to the new fund. Earmarking the fund for financial aid may make the idea more palatable, and could ease worries about higher tuition during recessions. The institutions currently receive between $1,000-$1,800 in state financial aid appropriations per student, so safeguarding financial aid helps safeguard the institutions. Tuition: Tuition would not be directly impacted by this option.	
Experience in Other States: The closest parallel to this option occurred in Colorado. Since 1992, Colorado's budget was the subject to a strict spending limit, and revenue collections above that limit were refunded to taxpayers (Oregon continues to use this model). In 2005, Colorado passed a ballot referendum that enabled the state to direct revenue above that limit to certain purposes, including higher education. Colorado's appropriations per FTE had declined between 2002-2006, and the additional revenue helped the state provide additional stipends for post-secondary education. Still, Colorado's tuition costs increased dramatically in the years since the adoption of Referendum C, and the state lacks the research funding at the levels Washington's institutions are accustomed to. The campaign over the measure in Colorado was very expensive, which is a concern.	
Savings	
Efficiency	
Performance and Accountability	
Considerations	Policy makers may not want to put restrictions on what is currently a flexible pot of money that can be used in a fiscal emergency. It would also take many years to fund, so its utility in the near- to medium-term is minimal. As this may require a constitutional amendment to change, this would be a challenge to implement.
Stakeholder perspectives	

Create local higher education taxing districts	
Create local taxing districts, similar to school boards or Port Districts that would enable institutions to raise their own revenue, either through property tax levies or a sales tax surcharge. There are several ways this could be implemented. For example, the state could authorize local (or regional) districts served by a four-year public university to create taxing districts. This may entail a modification in the way the institutions are governed (as taxing districts generally have elected boards who administer the service). Alternatively, the state could authorize the Community and Technical Colleges to create local service districts, which is a model found in many other states, including Oregon. This could reduce general fund budget pressure and ease the competition between the two sectors for state appropriations. Tuition is not directly addressed in this option, though the pressure to keep tuition lower may increase if the public paid for the institutions through general taxes as well as local levies. That said, this has not been the case in Oregon (see below).	
Experience in Other States: Like many states, Oregon's 17 community colleges are supported by local districts that function like school boards. An elected group of seven board members govern the institutions and ultimately set tuition. The colleges receive state appropriations and raise funds through local property taxes. To assist districts in property-poor regions of the state, the districts keep half of the local funds they raise, and the rest are redistributed by the state. While there are substantial differences between districts, the colleges received around $1,000 per FTE in local tax revenue in 2005. Even with this funding, the system receives less funding per student than Washington community colleges, and Oregon's community colleges have the third highest tuition rates in the nation.	
Savings	
Efficiency	
Performance and Accountability	
Considerations	This option would require substantial legal analysis and may again require constitutional changes. While it includes the possibility of increased revenue, the limits on property tax increases cap growth. The K-12 system would probably not support this option, as the bulk of state property taxes currently go to common schools. The public may not support sending local levy dollars (or sales tax dollars) to higher education, and local levies may not compete well on the ballot with K-12.
Stakeholder perspectives	